



# State of Wisconsin

## LEGISLATIVE REFERENCE BUREAU

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STEPHEN R. MILLER  
CHIEF

February 10, 2005

## MEMORANDUM

**To:** Senator Leibham

**From:** Marc E. Shovers, Sr. Legislative Attorney, (608) 266-0129

**Subject:** Technical Memorandum to **2005 SB-37** (LRB 05-0424/1)

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We received the attached technical memorandum relating to your bill. This copy is for your information and your file. If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

## **MEMORANDUM**

February 4, 2005

**TO:** Marc Shovers  
Legislative Reference Bureau

**FROM:** Rebecca Boldt  
Department of Revenue

**SUBJECT:** Technical Memorandum on Senate Bill 37: Individual Income Tax Deduction for Amounts Spent on Medical Insurance Premiums

The effective date of this bill, January 1, 2005, would only be a problem if the bill were to be enacted late in the year after tax forms are printed. The effective date of this bill, January 1, 2005, would pose a problem if the bill were to be enacted late in the year after tax forms and instructions to taxpayers are printed. Law changes should be enacted prior to July 31, 2005 to ensure the appropriate changes are made to tax forms before they are printed and to avoid confusion for taxpayers resulting from inaccurate forms.

If you have questions regarding this technical memorandum, please contact Kirstin Nelson at (608) 261-8984.

cc: Senator Leibham

## Fiscal Estimate - 2005 Session

☒ Original      ☐ Updated      ☐ Corrected      ☐ Supplemental

<b>LRB Number</b> <b>05-0424/1</b>		<b>Introduction Number</b> <b>SB-37</b>	
<b>Subject</b> Individual income tax deduction for amounts spent on medical insurance premiums			
<b>Fiscal Effect</b>  <b>State:</b> <div style="display: flex; flex-wrap: wrap;"><div style="width: 50%;"><input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate     <input type="checkbox"/> Increase Existing Appropriations     <input type="checkbox"/> Decrease Existing Appropriations     <input type="checkbox"/> Create New Appropriations</div><div style="width: 50%;"><input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues  <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget                     <input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs</div></div> <b>Local:</b> <div style="display: flex; flex-wrap: wrap;"><div style="width: 50%;"><input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate     1. <input type="checkbox"/> Increase Costs                      3. <input type="checkbox"/> Increase Revenue         <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory      <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory     2. <input type="checkbox"/> Decrease Costs                      4. <input type="checkbox"/> Decrease Revenue         <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory      <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory</div><div style="width: 50%;"><b>5. Types of Local Government Units Affected</b> <div style="display: flex; flex-wrap: wrap;"><div style="width: 33%;"><input type="checkbox"/> Towns <input type="checkbox"/> Counties <input type="checkbox"/> School Districts</div><div style="width: 33%;"><input type="checkbox"/> Village <input type="checkbox"/> Others <input type="checkbox"/> WTCS Districts</div><div style="width: 33%;"><input type="checkbox"/> Cities <div style="border-bottom: 1px solid black; width: 50px; display: inline-block;"></div> 0</div></div></div></div>			

## Fiscal Estimate Narratives

DOR 2/10/2005

LRB Number	05-0424/1	Introduction Number	SB-37	Estimate Type	Original
<b>Subject</b>					
Individual income tax deduction for amounts spent on medical insurance premiums					

### Assumptions Used in Arriving at Fiscal Estimate

This bill would expand the individual income tax deduction for medical care insurance premiums paid by an employee whose employer does not contribute toward the cost of the insurance from 50% to 100% of the premiums. The bill also would create an individual income tax deduction for 100% of medical care insurance premiums paid by an individual who is not self-employed and has no employer.

Based on a simulation on the 2003 Individual Income Tax model, adjusted to reflect current law, the expansion of the individual income tax deduction from 50% to 100% of medical care insurance premiums paid by an employee whose employer does not contribute toward the cost of the insurance reduces state tax revenues by \$1.2 million.

According to the Employee Benefits Research Institute, 8.3% of non-working adults had private non-employment-based health insurance coverage in 2003. According to the Kaiser Family Foundation, the average 2002 family and single health insurance coverage premiums were \$8,717 and \$3,500 respectively. Adjusting for the change in health insurance costs from 2002 to 2003 as estimated by the U.S. Department of Labor, Bureau of Labor Statistics, 2003 health insurance premiums for family and single coverage are estimated to be \$9,600 and \$4,000, respectively.

It is assumed that 8.3% of tax filers without earnings pay \$9,600 for family health insurance coverage or \$4,000 for single health insurance coverage and are eligible for the deduction of 100% of these premiums. Based on a simulation on the 2003 Individual Income Tax model, adjusted to reflect current law, the creation of an individual income tax deduction for 100% of health insurance premiums paid by non-working individuals would decrease state tax revenues by \$3.9 million.

Thus, the total revenue loss in 2003 would have been \$5.1 million (\$1.2 million + \$3.9 million). Adjusting for the change in health insurance costs from 2003 to 2005, as estimated by the U.S. Department of Labor, Bureau of Labor Statistics and Global Insight, this bill would decrease state revenues by \$5.9 million in FY06.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original
 ☐ Updated
 ☐ Corrected
 ☐ Supplemental

<b>LRB Number</b> 05-0424/1		<b>Introduction Number</b> SB-37	
<b>Subject</b>			
Individual income tax deduction for amounts spent on medical insurance premiums			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$		
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>	\$	\$	
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b>			
	Increased Rev	Decreased Rev	
GPR Taxes	\$	\$-5,900,000	
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>	\$	\$-5,900,000	
<b>NET ANNUALIZED FISCAL IMPACT</b>			
	State	Local	
NET CHANGE IN COSTS	\$	\$	
NET CHANGE IN REVENUE	\$-5,900,000	\$	
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Kirstin Nelson (608) 261-8984		Rebecca Boldt (608) 266-6785	2/9/2005